NASACT National Association of State Auditors, Comptrollers and Treasurers

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Washington Update

GAO: STATES SHOULD AUDIT MCO PAYMENTS

The U.S. Government Accountability Office has released a report detailing gaps in state and federal efforts to ensure Medicaid managed care program integrity. The report, "Increased Oversight Needed to Ensure Integrity of Growing Managed Care Expenditures," found two critical flaws in the program:

1. The Centers for Medicare and Medicaid Services (CMS), the federal agency within the Department of Health and Human Services (HHS) that oversees Medicaid, has largely delegated managed care program integrity oversight activities to the states, but has not updated its program integrity guidance since 2000.
2. CMS does not require states to audit managed care payments, and the state officials that GAO interviewed said they require additional CMS support, such as additional guidance and the option to obtain audit assistance from existing Medicaid integrity contractors in overseeing Medicaid managed care program integrity.

In the report's conclusion, GAO recommended that:

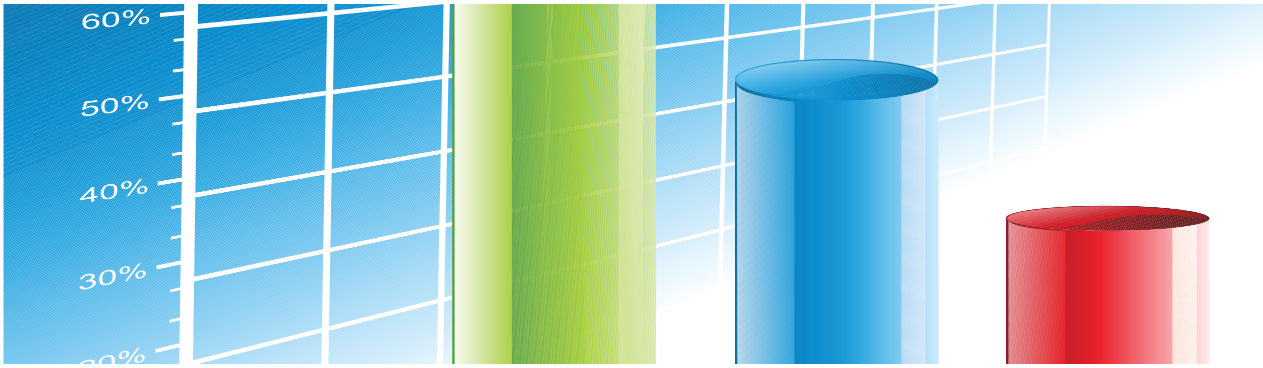
> "…CMS increase its oversight of program integrity efforts by requiring states to audit payments to and by managed care organizations; updating its guidance on Medicaid managed care program integrity; and providing states additional support for managed care oversight, such as audit assistance from existing contractors."

The full GAO report can be found at www.gao.gov/products/GAO-14-341.

SEC HALTS BOND SALE

The U.S. Securities and Exchange Commission obtained an emergency court order against a Chicago suburb to stop a fraudulent bond offering that the city has been marketing to potential investors. The SEC has filed fraud charges against the city of Harvey, Illinois, and its comptroller Joseph Letke, alleging that they have been engaging in a scheme for the past several years to divert bond proceeds to other improper, undisclosed uses. The SEC alleges that the purpose of prior bond offerings was to fund the development and construction of a Holiday Inn hotel in Harvey, but city officials diverted at least $1.7 million of bond proceeds from these offerings to pay the city's operational costs such as payroll, and Letke received approximately $269,000 in undisclosed payments derived from bond proceeds.

A press release on the matter can be found at www.sec.gov/News/Page/List/Page/1356125649507.



SOCIAL IMPACT BOND BILL INTRODUCED

Rep. Todd Young (R-IN) has introduced H.R. 4885, the Social Impact Bond Act. The goal of the bill is to encourage and support partnerships between the public and private sectors to improve the nation's social programs. To qualify as a social impact bond project, it must produce a measurable, clearly defined outcome that results in social benefit and federal savings through any of the following:

- Increasing work and earnings by individuals who have been unemployed in the United States for more than six consecutive months.
- Increasing employment and earnings of individuals age 16 to 24.
- Increasing employment among individuals receiving federal disability benefits.
- Reducing the dependence of low-income families on federal means-tested benefits.
- Improving rates of high school graduation.
- Reducing teen and unplanned pregnancies.
- Improving birth outcomes among low-income families and individuals.
- Reducing rates of asthma, diabetes, or other preventable diseases among low-income families and individuals.
- Increasing the proportion of children living in two-parent families.
- Reducing incidences of child abuse and neglect.
- Increasing adoptions of children from foster care.
- Reducing recidivism among individuals released from prison.
- Other measurable outcomes defined by the state or local government that result in positive social outcomes and federal savings.

The bill has been referred to the House Ways and Means Committee and Finance Committee, and currently has nine co-sponsors. No companion legislation currently exists in the Senate. Detailed explanation of state responsibilities on Social Impact Bonds can be found at http://toddyoung.house.gov/sib-bill.

SEC CHAIR: PUT TECHNOLOGY TO WORK IN THE BOND MARKETS

SEC Chairman Mary Jo White gave a speech recently indicating her desire to see the bond market embrace new technology and procedures to improve price disclosure for investors. With more than one million municipal bond issues outstanding, representing about $3.7 trillion in principal amount, Chairman White noted:

> "While transaction prices for both corporate and municipal bonds are now available to investors shortly after the trade occurs, the amount of pricing information available before a trade – bids and offers – is very limited, and is certainly not widely available to the investing public. It is striking that the dramatic technological advances that have transformed the equity markets over the past decade have had only a modest impact on the trading of fixed income securities."

She also indicated her concern that in the fixed income markets, technology is not being leveraged to achieve more widespread benefits for investors, including the broad availability of pre-trade pricing information, lower search costs, and greater price competition. She concluded, "We must take steps to ensure that the benefits of technological advances are realized by all investors in the fixed income markets."

Her full June 20 speech can be found at www.sec.gov/News/Page/List/Page/1356125649549.

CONGRESS ENTERS JULY 4TH RECESS

The Independence Day holiday starts this week, with both the Senate and House entering recess. Early schedules from both chambers have not indicated whether tax reform hearings or social bond discussions will be on the agenda. Congress will return on July 7, with the next Washington Update on July 14.

WASHINGTON STAFF

CORNELIA CHEBINOU
Washington Director
cchebinou@nasact.org

NEAL HUTCHKO
Policy Analyst
nhutchko@nasact.org

TANYA GRAYSON
Administrative Assistant
tgrayson@nasact.org

National Association of State Auditors, Comptrollers and Treasurers

HEADQUARTERS OFFICE

449 Lewis Hargett Circle, Suite 290
Lexington, KY 40503-3590
P (859) 276-1147, F (859) 278-0507

WASHINGTON OFFICE

444 N. Capitol Street, NW, Suite 234
Washington, DC 20001
P (202) 624-5451, F (202) 624-5473

www.nasact.org

For more information on this newsletter's content, contact Cornelia Chebinou at cchebinou@nasact.org or (202) 624-5451.

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